

**Mid-Cumberland Community Services Agency**

**For the Year Ended  
June 30, 2003**

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Financial/compliance audits of community services agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
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**John G. Morgan**  
Comptroller

October 21, 2004

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Board of Directors  
Mid-Cumberland Community Services Agency  
531 Metroplex Drive  
Nashville, Tennessee 37211

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Mid-Cumberland Community Services Agency for the year ended June 30, 2003. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The agency's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/rrp  
04/071

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Mid-Cumberland Community Services Agency**  
For the Year Ended June 30, 2003

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDING

### **Financial Statements Were Not Accurate**

Certain information in both the financial statements and notes was not properly presented. In addition, the statements and notes included amounts that did not agree with the general ledger or supporting documentation, and supporting documentation contained calculation and footing errors (page 8).

## COMPLIANCE FINDING

### **Criminal Background Checks Not Always Performed**

The agency failed to conduct a criminal background check for 4 of 18 applicable employees hired during the fiscal year ended June 30, 2003. In addition, the agency's policies and procedures regarding criminal background checks for new employees are not adequate (page 9).

## OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

**Audit Report**  
**Mid-Cumberland Community Services Agency**  
**For the Year Ended June 30, 2003**

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# **Mid-Cumberland Community Services Agency For the Year Ended June 30, 2003**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Mid-Cumberland Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

### **BACKGROUND**

The Community Services Agency Act of 1996 created the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for care of children and other citizens in the state.

The Mid-Cumberland Community Services Agency serves the following counties: Cheatham, Dickson, Houston, Humphreys, Montgomery, Robertson, Rutherford, Stewart, Sumner, Trousdale, Williamson, and Wilson. The agency’s administrative offices are in Nashville, Tennessee.

The governing body of the Mid-Cumberland Community Services Agency is the board of directors. As of June 30, 2003, the board was composed of ten members. (See Appendix.) An executive committee, consisting of six board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children’s Services, subject to the approval of the board.

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## **AUDIT SCOPE**

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The audit was limited to the period July 1, 2002, through June 30, 2003, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the

Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2003, and for comparative purposes, the year ended June 30, 2002. The Mid-Cumberland Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

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## PRIOR AUDIT FINDINGS

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There were no findings in the prior audit report.

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## OBSERVATIONS AND COMMENTS

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### AUDIT COMMITTEE RECOMMENDED

As a result of the fraud-related business failures of companies such as Enron and WorldCom in recent years, Congress and the accounting profession have taken aggressive measures to try to detect and prevent future failures. These measures have included the signing of the *Sarbanes-Oxley Act of 2002* by the President of the United States and the issuance of *Statement on Auditing Standards Number 99* (SAS 99) by the American Institute of Certified Public Accountants. This new fraud auditing standard has not only changed the way auditors perform audits but has also provided guidance to management and boards of directors on creating antifraud programs and controls. This guidance has included the need for an independent audit committee.



As a result of these developments, we are recommending that state agencies with boards establish audit committees. The specific activities of any audit committee will depend on the nature, structure, and size of each agency. In establishing the audit committee and creating its charter, each board should examine its agency's particular circumstances. The board should consider the risks of fraud in its agency in general as well as the history of its particular agency with regard to prior audit findings, previously disclosed weaknesses in internal control, and compliance issues. If the agency does not prepare its own financial statements, the board should examine fraud indicators and risks related to financial statement fraud. Notwithstanding where ultimate responsibility for the financial statements lies, the board should consider the risk of fraud in the financial operations of the agency and the risk of fraud due to misappropriation or abuse of agency assets.

Boards should exercise professional judgment in establishing the duties, responsibilities, and authority of their audit committee. The factors noted below are not intended to be an exhaustive listing of those matters to be considered. The committee should not limit its scope to reacting to a preconceived set of issues and actions but rather should be proactive in its oversight of the agency as it concentrates on the internal control and audit-related activities of the entity. In fact, this individualized approach is one of the main benefits derived from an audit committee.

At a minimum, audit committees should:

1. Develop a written charter that addresses the audit committee's purpose and mission, which should be, at a minimum, to assist the board in its oversight of the agency.
2. Formally reiterate, on a regular basis, to the board, agency management, and staff their responsibilities for preventing, detecting, and reporting fraud, waste, and abuse.
3. Serve as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in the agency's internal controls, reviewing with the auditors any findings or other matters noted by the auditors during audit engagements, working with the agency management and staff to ensure implementation of audit recommendations, and assisting in the resolution of any problems the auditors may have with cooperation from agency management or staff.
4. Develop a formal process for assessing the risk of fraud at the agency and assuring that internal controls are in place to adequately mitigate those risks.
5. Develop and communicate to staff of the agency their responsibilities to report allegations of fraud, waste, or abuse at the agency to the committee and the Comptroller's office as well as a process for immediately reporting such information.
6. Immediately inform the Comptroller of the Treasury's office when fraud is detected.
7. Develop and communicate to the board, agency management, and staff a written code of conduct reminding those individuals of the public nature of the agency and the need for all to maintain the highest level of integrity with regard to the financial operations and any related

financial reporting responsibilities of the agency; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect agency assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the agency.

The charter of the audit committee should include, at a minimum, the following provisions:

1. The audit committee should be a standing committee of the board.
2. The audit committee should be composed of at least three members. The chair of the audit committee should preferably have some accounting or financial management background. Each member of the audit committee should have an adequate background and education to allow a reasonable understanding of the information presented in the financial reports of the agency and the comments of auditors with regard to internal control and compliance findings and other issues.
3. The members of the audit committee must be independent from any appearances of other interests that are in conflict with their duties as members of the audit committee.
4. The board, the audit committee, and the management and staff of the agency are responsible for taking all reasonable steps to prevent, detect, and report fraud, waste, and abuse.
5. The audit committee should meet regularly throughout the year. The audit committee can meet by telephone, if that is permissible for other committees. However, the audit committee is strongly urged to meet at least once a year in person. Members of the audit committee may be members of other standing committees of the board, but the audit committee meetings should be separate from the meetings of other committees of the board.
6. The audit committee should record minutes of its meetings.

The Division of State Audit will be available to discuss with the board any questions it might have about the creation of its particular audit committee. There are also audit committees which have already been established that the board may wish to contact for advice and further information.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the Mid-Cumberland Community Services Agency's financial statements for the year ended June 30, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. A reportable condition, along with the recommendation and management's response, is detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the findings and recommendations.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the Mid-Cumberland Community Services Agency's financial statements.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT**

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**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

March 25, 2004

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Mid-Cumberland Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Mid-Cumberland Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mid-Cumberland Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- Financial statements were not accurately prepared

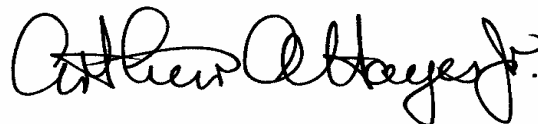
This condition is described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to the Mid-Cumberland Community Services Agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/rp

## **FINDINGS AND RECOMMENDATIONS**

### **1. Financial statements were not accurately prepared**

#### **Finding**

The Mid-Cumberland Community Services Agency's unaudited financial statements and notes for the fiscal year ended June 30, 2003, were not accurately prepared. Certain information in both the financial statements and notes was not properly presented. In addition, the statements and notes included amounts that did not agree with the general ledger or supporting documentation, and supporting documentation contained calculation and footing errors. The following errors were noted:

- The capital lease liability of \$16,676.82 was not deducted from the net capital assets in calculating the amount invested in capital assets, net of related debt, on the Statement of Net Assets.
- The capital lease liability reported on the Statement of Net Assets included the amount of the principal and interest due on the lease, rather than principal only. As a result, the liability was overstated by \$2,507.26.
- Depreciation for equipment purchased during the fiscal year was not included in depreciation expense for the current year, resulting in an understatement of accumulated depreciation and Child and Family Case Management expenses at June 30, 2003, of \$1,015.70.
- The final budgeted expenditures shown on the Budgetary Comparison Schedule for the Child and Family Case Management and Child and Family Services programs did not agree to the final budgeted amounts included in the Plan of Operation. As a result, the amounts presented as budgeted expenditures on the schedule for Case Management and Case Services were understated and overstated, respectively, by \$4,222.
- The unaudited financial statements were presented as comparative statements for the fiscal years ended June 30, 2003, and June 30, 2002; however, the notes to the financial statements were prepared for the fiscal year ended June 30, 2003, only.
- The amount of the depreciation expense reported in the narrative portion of the capital assets note (Note 3) did not agree to the amount presented in the table portion of the note or to the amount reported as depreciation expense in the financial statements.
- The schedule of operating leases contained numerous errors in beginning dates, ending dates, monthly payments, and number of payments during the fiscal year. Many of the equipment lease agreements did not contain the starting or ending dates, and for some of these leases, there was no other documentation of the lease period. Based on the best

evidence available, it appears that the total expenditures for leased space and equipment disclosed in the notes for June 30, 2003, were overstated by \$15,208.34 and \$5,608.98, respectively.

- The future minimum rental payments for noncancelable operating leases were disclosed for the four subsequent fiscal years, rather than the five subsequent years as required. In addition, the total of the payments disclosed was overstated by \$2,666.06.

Management is responsible for the proper presentation of accurate financial statements, ensuring that the general ledger supports the financial statements, and for maintaining adequate documentation for all included amounts. Some of the noted errors could have been detected and corrected if comparisons had been made between related supporting documentation and the financial statements.

### **Recommendation**

The fiscal director should ensure that financial statements are accurately prepared and properly presented. The general ledger should support the financial statements and agree with supporting documentation. The fiscal director should also compare related statements and notes to detect obvious errors.

### **Management's Comment**

Management concurs with the listing of errors in the finding but not to the fact that they are material enough to warrant this finding. This does not preclude MCCSA from working more diligently on the June 30, 2004, financial statements with the hopes of preventing these or other errors.

## **2. Criminal background checks for certain employees are not always performed**

### **Finding**

The Mid-Cumberland Community Services Agency failed to conduct a criminal background check for 4 of 18 applicable employees hired during the fiscal year ended June 30, 2003. Three of the employees transferred from either the Department of Children's Services or another community services agency. In addition, the agency's policies and procedures regarding criminal background checks for new employees are not adequate. Although the agency's policies and procedures require criminal background checks for persons filling positions involving contact with children, the policies and procedures do not specifically outline the necessary steps in the criminal background check process. The procedures do not address the following issues:

- how the agency ensures that the criminal background check has been completed and reviewed before the employee has unsupervised access to children;

- whether or not the agency will rely on a criminal background check conducted by a previous employer, specifically the Department of Children's Services or another community services agency;
- if the agency relies on a background check conducted by a previous employer, how the agency should obtain the documentation of the previous criminal background check from the prior employer; and
- how long the agency should wait after submitting information for a criminal background check before following up on the request.

Section 37-5-511, *Tennessee Code Annotated*, requires the Department of Children's Services (DCS) to obtain criminal violation information for employees or volunteers having access to children. Furthermore, the Brian A. Settlement Agreement also requires that all persons applying for department or contract agency positions that involve contact with children must submit to a criminal records check and child abuse registry screening process before beginning training or employment. The Community Services Agencies are subject to these requirements according to Chapter 0250-7-6(3)(b) of the *Department of Children's Services Rules and Regulations*, which states, "CSA employees are required to comply with established DCS policies, procedures, standards and legal advice in providing services to families and children pursuant to contracts with DCS."

The agency currently does not request criminal background checks until after persons begin employment with the agency. There is a chance a person convicted of a child-related abuse offense could have unsupervised contact with children before the results of the background check have been received. The possibility that children could be endangered contradicts the agency's mission to protect them. In addition, child safety is a sensitive area where even one incident could subject children to abuse and adversely affect the agency's credibility with the public.

### **Recommendation**

To protect children in their charge from abuse and to ensure compliance with state statutes and the Brian A. Settlement Agreement, the board of directors should ensure that policies and procedures are developed and implemented detailing the background check process, ensuring results are received and communicated to the appropriate personnel, and preventing employees from being overlooked for background checks. New personnel should not be assigned to duties in which they have contact with children until management has received and evaluated the fingerprint results. The director of personnel should also review personnel files to determine if criminal background checks were obtained for all current employees who have contact with children.

### **Management's Comment**

We do agree, in order to protect the children, the updated policy statements specified in the finding will be added to an amended policy statement.





**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT**

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**Independent Auditor's Report**

March 25, 2004

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities and the general fund of the Mid-Cumberland Community Services Agency, a component unit of the State of Tennessee, as of and for the years ended June 30, 2003, and 2002, which collectively comprise the agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the agency's management. Our responsibility is to express opinions on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Mid-Cumberland Community Services Agency as of June 30, 2003, and 2002, and the respective changes

The Honorable John G. Morgan  
March 25, 2004  
Page Two

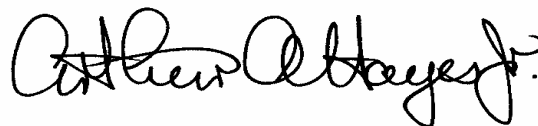
in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the Schedule of Pension Funding Progress for Mid-Cumberland Community Services Agency are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information on page 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2004, on our consideration of Mid-Cumberland Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/rp

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Mid-Cumberland Community Services Agency is providing the *Management's Discussion and Analysis* for readers of our financial statements. This narrative overview and analysis of the financial activities is for the fiscal years ended June 30, 2003, and June 30, 2002. This is the second year the Mid-Cumberland Community Services Agency has applied the new GASB 34 reporting standard to the Financial Statements and, as a result, significant changes in content and structure have been included compared to previous year's financial statements. As a result, comparative information between the fiscal year ended June 30, 2002, and June 30, 2001, is not available. In future years, as prior-year information becomes available, a comparative analysis of government-wide data will be presented.

### FINANCIAL HIGHLIGHTS

- Mid-Cumberland Community Services Agency's total assets were \$1,081,508 at June 30, 2003, and \$1,225,994 at June 30, 2002.
- Total liabilities were \$966,819 at June 30, 2003, and \$1,080,613 at June 30, 2002.
- Total net assets (assets less liabilities) at June 30, 2003, were \$114,688, of which \$97,463 was unrestricted, and represented a decrease of \$30,693 from the previous year. Total net assets at June 30, 2002, were \$145,381, of which \$128,568 was unrestricted, and reflected an increase of \$16,743 from the previous year.
- Total reportable expenses of all governmental activities, including depreciation, were \$6,970,516 for 2003 and \$6,098,041 for 2002.
- The agency's general fund balance at June 30, 2003, was reported at \$226,551, of which \$209,991 was unreserved, and reflected a decrease of \$6,763 from the previous year. The general fund balance at June 30, 2002, was reported at \$233,315, of which \$216,185 was unreserved, and reflected an increase of \$4,979 from the previous year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The statements also contain required supplementary information and supplementary information that is not required.

#### Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the operations of the agency—the **Government-Wide Financial Statements** and the **Fund Financial Statements**. The financial statements also include the **Notes to the Financial Statements**, which provides additional explanation and/or more detail to some of the information contained in the financial statements.

#### Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the agency's operations using accounting methods similar to a private-sector business. The statements provide both short-term and long-term information about the agency's financial position and assist in assessing the agency's economic condition at the end of the fiscal year. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The statements also take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two (2) statements:

1. the statement of net assets presents all of the agency's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the agency's net assets may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating.
2. the statement of activities presents information showing the agency's net assets and their changes during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected receivables, and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each governmental activity of the agency, including Administration, Child and Family Services, Child and Family Case Management, TennCare Transportation, Senior Citizens Employment Program, or any other program.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or programs. The fund financial statements focus on individual funds of the agency, reporting the agency's operations in more detail than the government-wide statements. Mid-Cumberland Community Services Agency has one type of fund:

Governmental Fund – The basic services provided by the agency are financed through a governmental fund. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using a modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the agency's programs. The governmental fund statements provide a detailed short-term view of the agency's financial position, operations, and types of services provided. There are two governmental fund statements:

1. the governmental fund Balance Sheet, and
2. the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances.

The relationship (or differences) between governmental activities and the governmental funds is described by reconciliations presented with each governmental fund financial statement.

The agency has one governmental fund, the General Fund.

### **Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the financial statements.

### **Required Supplementary Information**

The basic financial statements are followed by the required supplementary information that consists of a Schedule of Pension Funding Progress.

### **Other Supplementary Information**

The Budgetary Comparison Schedule is presented as supplementary information. It follows the required supplementary information.

## FINANCIAL ANALYSIS

### Net Assets

The Mid-Cumberland Community Services Agency's net assets were \$114,688 at June 30, 2003, and \$145,381 at June 30, 2002.

#### Net Assets Governmental Activities

	June 30, 2003	June 30, 2002
Current Assets	\$ 1,047,606	\$ 1,186,845
Capital Assets, net of depreciation	33,902	39,149
Total Assets	<u>1,081,508</u>	<u>1,225,994</u>
Current Liabilities	821,055	953,530
Long-Term Liabilities	145,765	127,083
Total Liabilities	<u>966,820</u>	<u>1,080,613</u>
Net Assets		
Invested in Capital Assets, net of related debt	17,225	16,813
Unrestricted	97,463	128,568
Total Net Assets	<u>\$ 114,688</u>	<u>\$ 145,381</u>

### Changes in Net Assets

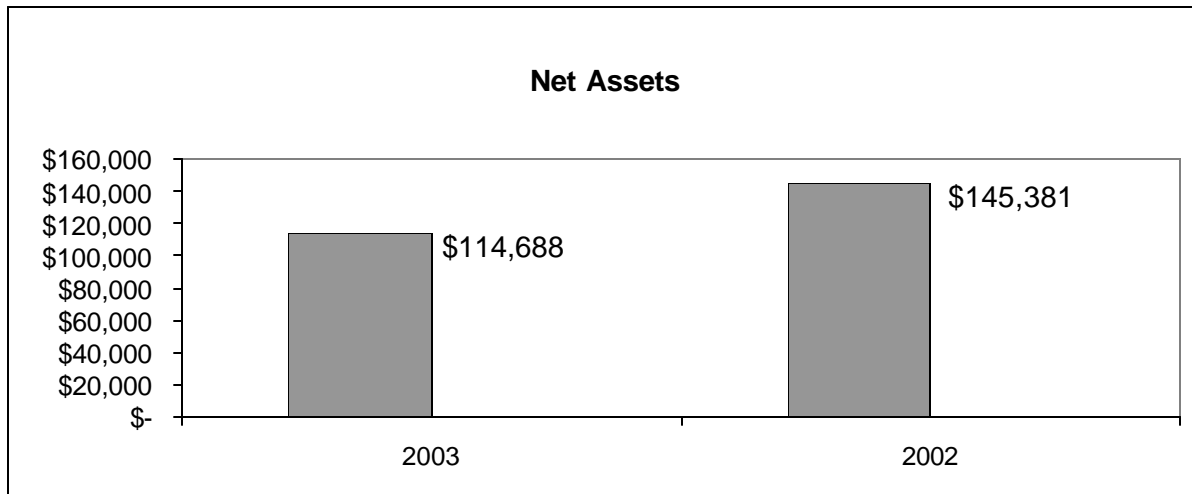
For the fiscal year ended June 30, 2003, total revenues and total expenses were \$6,939,823 and \$6,970,516, respectively. The agency's net assets decreased \$30,693, or 21.1%, from the previous year. The most significant changes between the two fiscal years were a \$24,341 increase in the expense for compensated absences, a \$10,532 decrease in interest revenue, and a \$10,602 increase in the agency's share of the AmeriCorp Promise Fellows program expenses after the number of promise fellows was increased. Approximately 92% of the agency's total revenue came from the State of Tennessee, while the remaining 8% of revenue resulted from charges for other various program services provided. The Department of Children's Services has changed the method of reimbursement which resulted in less cash available causing the fiscal department to perform more stringent cash monitoring.

Total revenues were \$6,114,784; and total expenses were \$6,098,041 for the year ended June 30, 2002. The agency's net assets at June 30, 2002, increased by \$16,743, or 8.8%, from the previous year. Approximately 93% of the agency's total fiscal year ended June 30, 2002, revenue came from the State of Tennessee, while the remaining 7% of revenue resulted from charges for other various program services provided.

#### Changes in Net Assets Governmental Activities

	Year Ended June 30, 2003	Year Ended June 30, 2002
Revenue		
Program Revenues		
Charges for services	\$ 411,936	\$ 409,587
Operating grants and contributions	6,522,231	5,377,233
General Revenues		
Payment from State of Tennessee	-	311,776
Interest	5,656	16,188
Total Revenue	<u>6,939,823</u>	<u>6,114,784</u>

Expenses		
Administration	539,673	374,107
Health and Social Services	6,430,843	5,723,934
Total Expenses	<u>6,970,516</u>	<u>6,098,041</u>
Increase(Decrease) in Net Assets	<u>\$ (30,693)</u>	<u>\$ 16,743</u>



## FINANCIAL ANALYSIS OF THE AGENCY'S GENERAL FUND

### Governmental Fund General Fund

The unreserved fund balance serves as a useful measure of an agency's net resources available for utilization at the end of the fiscal year. At June 30, 2003, the agency's general fund reported an unreserved ending fund balance of \$209,991, reflecting a decrease of \$6,194 from the previous fiscal year. At the end of fiscal year ended June 30, 2002, the agency's general fund reported an unreserved fund balance of \$216,185, a decrease of \$413 from the prior year.

### CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

During the course of the fiscal year ended June 30, 2003, the agency invested in an additional capital asset. A telephone system costing \$8,706 was added to the satellite location in Murfreesboro, Tennessee. The agency's total investment in capital assets for its governmental activities as of June 30, 2003, was \$214,771; accumulated depreciation was \$180,869, and net book value was \$33,902. See Note 3 in the Notes to the Financial Statements for additional information.

During the course of the fiscal year ending June 30, 2002, the agency invested in an additional capital asset. A telephone system costing \$13,973 was added to the satellite location in Gallatin, Tennessee. The agency's total investment in capital assets for its governmental activities as of June 30, 2002, was \$217,990; accumulated depreciation was \$178,841, and net book value was \$39,149.

Liabilities for future payments for compensated absences and a capital lease agreement are described in detail in the Notes to the Financial Statements (Notes 4 and 6).

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Management of Mid-Cumberland Community Services Agency does anticipate changes and modifications to our programs and governmental activities affecting our budget for next fiscal year. However, increases to health insurance and the retirement program along with no increases in our budget for these expenses will cause possible budget shortfalls in the 2004 fiscal year. One of our major sources of funding, the Department of Children's Services, will be restructured. A new practice model is being developed that will reverse the reorganization that occurred in 2003. The economic effect on MCCSA is unknown. The MCCSA will actively pursue contracting with other state agencies to fulfill its obligation as determined by state statute and the Board of Directors. One such contract opportunity is with the Tennessee Department of Correction in managing a health facility located at the DeBerry Special Needs Facility in Nashville, Tennessee. We anticipate no impact from the proposed TennCare changes.

## **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our grantors, customers, and citizens of the State of Tennessee with a general overview of the agency's finances and its use of the funds received. If you have any questions about this report or need additional information, you may contact the Mid-Cumberland Community Services Agency's Director of Fiscal Services, at 531 Metroplex Drive, Suite A-200, Nashville, Tennessee 37211 or (615) 333-5400.

Mid-Cumberland Community Services Agency  
Statements of Net Assets  
June 30, 2003, and June 30, 2002

	Governmental Activities	
	June 30, 2003	June 30, 2002
<b>Assets</b>		
Cash (Note 2)	\$ 392,983.36	\$ 892,631.21
Accounts receivable	33,564.66	44.64
Due from the State of Tennessee	604,497.04	277,039.20
Prepaid items	16,560.76	17,129.59
Capital assets (Note 3):		
Equipment	214,771.40	217,990.40
Less accumulated depreciation	(180,869.58)	(178,841.23)
Total assets	<u>1,081,507.64</u>	<u>1,225,993.81</u>
<b>Liabilities</b>		
Accrued payroll, payroll taxes, and benefits	165,688.98	154,465.35
Accounts payable	162,089.60	369,827.94
Checks payable	323,338.76	-
Due to the State of Tennessee	169,937.18	429,236.74
Long-term liabilities:		
Portion due or payable within one year:		
Capital leases (Notes 4 and 6)	6,345.90	5,658.82
Compensated absences (Note 4)	72,397.37	58,956.22
Portion due or payable after one year:		
Capital leases (Notes 4 and 6)	10,330.92	16,676.82
Compensated absences (Note 4)	56,690.70	45,790.61
Total liabilities	<u>966,819.41</u>	<u>1,080,612.50</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	17,225.00	16,813.53
Unrestricted	97,463.23	128,567.78
Total net assets	<u>\$ 114,688.23</u>	<u>\$ 145,381.31</u>

The notes to the financial statements are an integral part of this statement.



Mid-Cumberland Community Services Agency  
Statements of Activities  
For the Years Ended June 30, 2003, and June 30, 2002

Programs	For the Year Ended June 30, 2003				For the Year Ended June 30, 2002			
	Program Revenues			Net (Expense) Revenue and Change in Net Assets	Program Revenues			Net (Expense) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions		Expenses	Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>								
Administration	\$ 539,673.05	\$ -	\$ 426,058.78	\$ (113,614.27)	\$ 374,106.88	\$ -	\$ -	\$ (374,106.88)
Child and Family Case Management (Note 14)	3,609,537.94	-	3,596,420.09	(13,117.85)	3,540,926.46	-	3,547,554.47	6,628.01
Child and Family Services (Note 14)	2,053,875.07	-	2,053,875.07	-	1,523,828.69	-	1,523,828.69	-
TennCare Transportation	288,951.81	411,935.51	-	122,983.70	332,299.10	409,587.05	-	77,287.95
AmeriCorp Promise Fellows	52,957.04	-	21,600.00	(31,357.04)	31,555.11	-	10,800.00	(20,755.11)
Senior Community Services	292,832.50	-	293,200.00	367.50	295,324.41	-	295,050.00	(274.41)
Workforce Essentials	132,688.97	-	131,077.64	(1,611.33)	-	-	-	-
Total	<u>\$ 6,970,516.38</u>	<u>\$ 411,935.51</u>	<u>\$ 6,522,231.58</u>	<u>(36,349.29)</u>	<u>\$ 6,098,040.65</u>	<u>\$ 409,587.05</u>	<u>\$ 5,377,233.16</u>	<u>(311,220.44)</u>
General revenues:					General revenues:			
Payment from the State of Tennessee				-	Payment from the State of Tennessee			311,775.64
Unrestricted investment earnings				5,656.21	Unrestricted investment earnings			16,188.03
Total general revenues				5,656.21	Total general revenues			327,963.67
Change in net assets				(30,693.08)	Change in net assets			16,743.23
Net assets - July 1				145,381.31	Net assets - July 1			128,638.08
Net assets - June 30				<u>\$ 114,688.23</u>	Net assets - June 30			<u>\$ 145,381.31</u>

The notes to the financial statements are an integral part of this statement.

Mid-Cumberland Community Services Agency  
Balance Sheets  
General Fund  
June 30, 2003, and June 30, 2002

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>Assets</b>		
Cash (Note 2)	\$ 392,983.36	\$ 892,631.21
Accounts receivable	33,564.66	44.64
Due from the State of Tennessee	604,497.04	277,039.20
Prepaid items	16,560.76	17,129.59
Total assets	<u>\$ 1,047,605.82</u>	<u>\$ 1,186,844.64</u>
<b>Liabilities and Fund Balance</b>		
Liabilities:		
Accrued payroll, payroll taxes, and benefits	\$ 165,688.98	\$ 154,465.35
Accounts payable	162,089.60	369,827.94
Checks payable	323,338.76	-
Due to the State of Tennessee	169,937.18	429,236.74
Total liabilities	<u>821,054.52</u>	<u>953,530.03</u>
Fund balance:		
Reserved for prepaid items	16,560.76	17,129.59
Unreserved	209,990.54	216,185.02
Total fund balance	<u>226,551.30</u>	<u>233,314.61</u>
Total liabilities and fund balance	<u>\$ 1,047,605.82</u>	<u>\$ 1,186,844.64</u>
<b>Reconciliation of the general fund balance sheet to the statement of net assets:</b>		
Total fund balance	\$ 226,551.30	\$ 233,314.61
Amounts reported in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the general fund.	33,901.82	39,149.17
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the general fund. Long-term liabilities at year-end consist of:		
Capital leases payable	(16,676.82)	(22,335.64)
Compensated absences	<u>(129,088.07)</u>	<u>(104,746.83)</u>
Total net assets	<u>\$ 114,688.23</u>	<u>\$ 145,381.31</u>

The notes to the financial statements are an integral part of this statement.

Mid-Cumberland Community Services Agency  
 Statements of Revenues, Expenditures, and Changes in Fund Balance  
 General Fund  
 For the Years Ended June 30, 2003, and June 30, 2002

	For the Year Ended June 30, 2003	For the Year Ended June 30, 2002
<b>Revenues</b>		
State grants and contracts	\$ 6,076,353.94	\$ 5,383,158.80
Federal grants and contracts	445,877.64	304,000.00
TennCare Transportation contracts	411,935.51	409,587.05
Donations	-	1,850.00
Interest	5,656.21	16,188.03
Total revenues	<u>6,939,823.30</u>	<u>6,114,783.88</u>
<b>Expenditures</b>		
Administration	532,407.75	383,785.09
Child and Family Case Management (Note 14)	3,596,420.09	3,547,554.47
Child and Family Services (Note 14)	2,053,875.07	1,523,828.69
TennCare Transportation	286,649.02	329,202.69
AmeriCorp Promise Fellows	52,957.04	30,383.59
Senior Community Services	293,200.00	295,050.00
Workforce Essentials	131,077.64	-
Total expenditures	<u>6,946,586.61</u>	<u>6,109,804.53</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,763.31)</u>	<u>4,979.35</u>
Fund balance, July 1	233,314.61	228,335.26
Fund balance, June 30	<u>\$ 226,551.30</u>	<u>\$ 233,314.61</u>
<b>Reconciliation of the general fund statement of revenues, expenditures, and changes in fund balance to the statement of activities:</b>		
Net change in fund balance	\$ (6,763.31)	\$ 4,979.35
Amounts reported in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays were more than (or less than) depreciation expense in the period.	(5,247.35)	3,032.93
Payments on capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets.	5,658.82	5,046.08
The expense for compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.	<u>(24,341.24)</u>	<u>3,684.87</u>
<b>Changes in net assets of governmental activities</b>	<u>\$ (30,693.08)</u>	<u>\$ 16,743.23</u>

The notes to the financial statements are an integral part of this statement.

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements**  
**June 30, 2003, and June 30, 2002**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Title 37, Chapter 5, of *Tennessee Code Annotated*, established the CSA as “a political subdivision and instrumentality of the state.” The Mid-Cumberland Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget). The CSA’s reporting entity does not include any component units.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The CSA’s basic financial statements consist of government-wide financial statements (the statement of net assets and the statement of activities) and fund financial statements (the balance sheet and the statement of revenues, expenditures, and changes in fund balance). The Mid-Cumberland Community Services Agency has no proprietary or fiduciary funds, and its only governmental fund is the general fund.

The statement of net assets presents all of the CSA’s financial and capital resources including both short-term and long-term information. The statement of activities presents a comparison between the direct expenses and program revenues for each of the CSA’s programs. Direct expenses are those that are specifically associated with a program. Program revenues include (a) charges paid by the recipients for services provided by the program and (b) grants and contributions that are restricted to meeting the operational requirements of the program. Revenues that are not classified as program revenues are presented as general revenues.

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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related cash flows. Grants are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual, generally when they are measurable and become available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenues that the CSA earns by incurring obligations are recognized in the same period the obligations are recognized. All other revenue items are considered to be available if collected within 60 days after the end of the current period.

Expenditures are recorded when the related fund liability is incurred, except for compensated absences and capital lease principal and interest, which are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the CSA funds certain programs by a combination of specific cost-reimbursement grants and general revenues. It is the CSA's policy to first apply restricted resources to such programs and then unrestricted resources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

### **Assets and Liabilities**

#### **Cash**

Cash reported in both the government-wide and the fund financial statements consists of petty cash, demand deposits, and deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The liquidity of the LGIP is sufficient to cover any withdrawal request by a participant.

#### **Capital Assets**

Capital assets are defined by the CSA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capitalized assets are reported

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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in the government-wide financial statements. Capitalized assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The CSA does not own any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capitalized assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Computer Equipment	3 years
Telephone Equipment	5 years

Checks Payable

Checks payable represent the sum of checks written in excess of the Community Services Agency's checking account balance in both the government-wide and the fund financial statements.

Compensated Absences

It is the CSA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the CSA's policy is to pay this benefit only if the employee is sick or upon death. In the government-wide financial statements, the liability for all vacation pay is accrued when earned. In the fund financial statements, a liability for these amounts is reported only if they have matured, for example, because of employee resignations and retirements.

Capital Leases

A capital lease arrangement for the acquisition of a capital asset is recognized as a long-term obligation in the government-wide financial statements at the inception of the arrangement. In the fund financial statements, a liability relating to a capital lease is only reported when payment is due.

**Budgetary Process**

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children's Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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amended during the year with the written approval of the Commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

**NOTE 2. DEPOSITS**

The Mid-Cumberland Community Services Agency's bank accounts are in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The Mid-Cumberland Community Services Agency also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2003, and June 30, 2002. The report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**NOTE 3. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Equipment	\$ 217,990.40	\$ 8,706.00	\$ 11,925.00	\$ 214,771.40
Less accumulated depreciation	<u>(178,841.23)</u>	<u>(13,953.35)</u>	<u>(11,925.00)</u>	<u>(180,869.58)</u>
Total capital assets, net of depreciation	<u>\$ 39,149.17</u>	<u>\$ (5,247.35)</u>	<u>\$ -</u>	<u>\$ 33,901.82</u>

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

Depreciation expense of \$13,953.35 was charged to the Child and Family Case Management program.

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Beginning</u> <u>Balance</u>		<u>Increases</u>		<u>Decreases</u>		<u>Ending</u> <u>Balance</u>
Equipment	\$ 204,017.40	\$	13,973.00	\$	-	\$	217,990.40
Less accumulated depreciation	<u>(167,901.16)</u>		<u>(10,940.07)</u>		<u>-</u>		<u>(178,841.23)</u>
Total capital assets, net of depreciation	\$ <u>36,116.24</u>	\$	<u>3,032.93</u>	\$	<u>-</u>	\$	<u>39,149.17</u>

Depreciation expense was charged to the CSA programs as follows:

<u>Program</u>	<u>Amount</u>
Administration	\$ 1,072.42
Child and Family Case Management	7,012.47
TennCare Transportation	2,436.46
AmeriCorp Promise Fellows	<u>418.72</u>
Total depreciation expense	\$ <u>10,940.07</u>

**NOTE 4. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning</u> <u>Balance</u>		<u>Increases</u>		<u>Decreases</u>		<u>Ending</u> <u>Balance</u>
Compensated absences	\$ 104,746.83	\$	168,368.70	\$	144,027.48	\$	129,088.07
Capital leases	<u>22,335.64</u>		<u>-</u>		<u>5,658.82</u>		<u>16,676.82</u>
Total long-term liabilities	\$ <u>127,082.47</u>	\$	<u>168,368.70</u>	\$	<u>149,686.30</u>	\$	<u>145,764.89</u>



**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

Long-term liability activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated absences	\$ 108,431.70	\$ 153,519.32	\$ 157,204.19	\$ 104,746.83
Capital leases	<u>27,381.72</u>	<u>-</u>	<u>5,046.08</u>	<u>22,335.64</u>
Total long-term liabilities	<u>\$ 135,813.42</u>	<u>\$ 153,519.32</u>	<u>\$ 162,250.27</u>	<u>\$ 127,082.47</u>

**NOTE 5. OPERATING LEASE**

The agency leases office space and equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for space and equipment were \$184,060.08 and \$65,652.27 for the year ended June 30, 2003, and \$181,625.08 and \$42,808.92 for the year ended June 30, 2002. The leases for space are cancelable; all leases for equipment are noncancelable.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms exceeding one year as of June 30, 2003.

<u>Year Ending June 30</u>	
2004	\$ 57,359.31
2005	50,038.10
2006	45,029.46
2007	<u>14,335.71</u>
Total minimum payments required	<u>\$ 166,762.58</u>

In addition, the State of Tennessee has entered into cancelable lease agreements for space and equipment on behalf of the agency. The agency reimburses the state for these lease payments each month. Total reimbursements to the state for operating leases were \$61,060.15 for the year ended June 30, 2003, and \$59,005.71 for the year ended June 30, 2002. The agency is not obligated to continue making the lease payments should it discontinue use of the space and equipment.

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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**NOTE 6. CAPITAL LEASE**

The agency has a lease agreement in effect that is considered a capital lease. This agreement has a beginning date of December 13, 2000, and an ending date of November 13, 2005, and an imputed interest rate of 11.5%. The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments at June 30, 2003.

Year Ending <u>June 30</u>	
2004	\$ 7,938.24
2005	7,938.24
2006	<u>3,307.60</u>
Total minimum payments required	19,184.08
Less amounts representing interest	<u>2,507.26</u>
Present value of net minimum lease payments	\$ <u><u>16,676.82</u></u>

The capitalized cost of the equipment acquired under the lease agreement was \$30,069.00. The value at June 30, 2003, and June 30, 2002, net of depreciation was \$13,531.05, and \$19,544.85, respectively.

**NOTE 7. DEFINED BENEFIT PENSION PLAN**

**Plan Description**

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits, as well as annual cost-of-living adjustments, to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. The report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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Floor Andrew Jackson Building, 500 Deaderick Street, Nashville, Tennessee 37243-0230, or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

**Funding Policy**

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. The agency is required to contribute an actuarially determined rate; for the year ended June 30, 2003, the rate was 6.89% of annual covered payroll and for the year ended June 30, 2002, the rate was 4.99% of annual covered payroll. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

**Annual Pension Cost**

The agency's annual pension cost of \$194,775 for the year ended June 30, 2003, and \$134,709 for the year ended June 30, 2002, were equal to the agency's required and actual contributions.

The required contributions for the years ended June 30, 2003, and June 30, 2002, were determined as part of the July 1, 2001, and July 1, 1999, actuarial valuations using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used in both valuations included a rate of return on investment of present and future assets of 7.5% a year compounded annually and a projected annual increase in post-retirement benefits of 3% of the retiree's most recent benefit. Projected salary increases used in the 2001 valuation were 4.75% a year compounded annually down from 5.5% a year in the 1999 valuation (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries). The 2001 valuation projected a 3.5% annual increase in the social security wage base, down from 4.5% in the 1999 valuation. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period.

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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**Three-Year Trend Information**

Fiscal Year <u>Ended</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
June 30, 2003	\$ 194,775	100%	\$ -
June 30, 2002	\$ 134,709	100%	\$ -
June 30, 2001	\$ 120,490	100%	\$ -

**NOTE 8. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible agency retirees. This benefit is provided and administered by the State of Tennessee. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. Note 2 includes the information to obtain the report.

**NOTE 9. CONTINGENCIES**

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was \$167,099.09 at June 30, 2003, and \$129,452.93 at June 30, 2002.

**NOTE 10. IN-KIND CONTRIBUTIONS**

In-kind contributions represent the value of noncash contributions provided by an external organization. These contributions may consist of volunteer time, services, space, utilities, supplies, or equipment use. Because the receipt of in-kind contributions does not result in current financial resources, the value of the contributions is not recognized in the financial statements.

Local businesses and other members of the community donate supervisory time and work space to Senior Community Services Employment Program participants enrolled in part-time community service and private-sector employment. Mid-Cumberland Community

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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Services Agency received in-kind contributions for this program of in excess of \$35,000 during both the year ended June 30, 2003, and the year ended June 30, 2002.

**NOTE 11. DONATED FACILITIES**

The close relationship of Mid-Cumberland Community Services Agency with the Department of Children's Services has created a sharing of leased facilities. A few Mid-Cumberland employees are housed in DCS facilities, and a few DCS employees are housed in Mid-Cumberland facilities. The values of these shared/donated facilities are not recorded in the financial statements.

**NOTE 12. RISK MANAGEMENT**

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

**Commercial Coverage**

The agency carries commercial insurance for risks of loss of its personal property and professional liability coverage for board members and directors. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**State of Tennessee's Claims Award Fund**

The agency participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. As a participant in the Claims Award Fund, the agency is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the agency for bodily injury and property

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated*.

**Health Coverage**

The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80% of the total premiums. The employees are responsible for the remaining 20% of the total premiums. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee or Aetna HealthCare of Nashville. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee and three months under Aetna HealthCare.

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14<sup>th</sup> Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298.

**NOTE 13. NEW ACCOUNTING PRONOUNCEMENTS**

The Mid-Cumberland Community Services Agency has implemented the provisions of Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB*

**Mid-Cumberland Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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*Statements No. 21 and No. 34.* These statements establish new financial reporting requirements and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The State of Tennessee implemented these statements, as required, for the year ended June 30, 2002. As a component unit of the state, the Mid-Cumberland Community Services Agency has also implemented the statements for the year ended June 30, 2002.

**NOTE 14. RELATED-PARTY TRANSACTIONS**

Section 37-5-305, *Tennessee Code Annotated*, defines the membership of the Community Services Agency's (CSA) Board of Directors. Included on each rural CSA's board is the Commissioner of the Department of Children's Services (DCS) or the commissioner's designee. The commissioner has designated the DCS Regional Administrator, a management-level DCS employee assigned to the CSA service area. As a board member, the Regional Administrator can vote on all CSA business including: the adoption of written policies, procedures or rules and regulations to govern the CSA's internal operations; the making and executing of contracts; or the receiving, administering, allocating and disbursing of funds made available under any federal or state assistance program. As a DCS employee, the Regional Administrator can authorize transactions that will be paid by the CSA. DCS is the primary funding source of the Mid-Cumberland Community Services Agency, providing over \$6 million in revenue.

In addition, the DCS Commissioner approves the CSA's board of directors' appointment of the agency's Executive Director. The DCS Commissioner also approves any CSA policies, procedures or rules and regulations proposed by the board of directors, as well as all contracts for the purchase of services or the acquisition or improvement of real property. Furthermore, the Commissioner is responsible for the review and approval of the CSA's plan of operation submitted in accordance with Section 37-5-310, *Tennessee Code Annotated*.

**NOTE 15. PRIOR YEAR RECLASSIFICATION**

Certain amounts presented for the preceding year have been reclassified for comparative purposes. Expenditures reported as Children and Family Services, Family Support Services, Flexible Funding, and Emergency Residential for the year ended June 30, 2002, were reclassified and reported as Child and Family Case Management and Child and Family Services for the year ended June 30, 2003.

**Mid-Cumberland Community Services Agency**  
**Required Supplementary Information**  
**Schedule of Pension Funding Progress**

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Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2001	\$2,416,132	\$2,416,132	-	100%	\$2,311,171	- %
July 1, 1999	\$1,880,049	\$1,880,049	-	100%	\$2,268,739	- %
June 30, 1997	\$1,354,095	\$1,354,095	-	100%	\$2,333,966	- %

Changes in Actuarial Assumptions

An actuarial valuation was performed as of July 1, 2001, to establish contribution rates as of July 1, 2002. The July 1, 1999, actuarial valuation established contribution rates for the year ended June 30, 2002. Significant actuarial assumptions used in both valuations included a rate of return on investment of present and future assets of 7.5% a year compounded annually and projected an annual increase in post-retirement benefits of 3% of the retiree's most recent benefit. Projected salary increases used in the 2001 valuation were 4.75% a year compounded annually, down from 5.5% a year in the 1999 valuation (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries). The 2001 valuation projected a 3.5% annual increase in the social security wage base, down from 4.5% in the 1999 valuation.



Supplementary Information  
Mid-Cumberland Community Services Agency  
Budgetary Comparison Schedules  
General Fund  
For the Years Ended June 30, 2003, and June 30, 2002

	For the Year Ended June 30, 2003				For the Year Ended June 30, 2002			
	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final			Original	Final		
<b>Sources of Financial Resources:</b>								
Fund Balance - July 1								
Amount approved for expenditure	\$ 109,315.00	\$ 109,315.00	\$ 109,315.00		\$ 83,740.00	\$ 150,303.00	\$ 150,303.00	
Amount not approved for expenditure	123,999.61	123,999.61	123,999.61		144,595.26	78,032.26	78,032.26	
<b>Revenues</b>								
Department of Children's Services	6,058,251.00	6,624,037.00	6,076,353.94	\$ (547,683.06)	6,895,059.00	6,964,059.00	5,381,308.80	\$ (1,582,750.20)
TennCare Managed Care Organizations/ Behavioral Health Organizations	426,928.00	430,324.00	411,935.51	(18,388.49)	394,474.00	468,561.00	409,587.05	(58,973.95)
Tennessee Commission on National and Community Service	21,600.00	21,600.00	21,600.00	-	-	21,600.00	10,800.00	(10,800.00)
Tennessee Commission on Aging	310,000.00	327,724.00	293,200.00	(34,524.00)	329,670.00	329,670.00	295,050.00	(34,620.00)
Metropolitan Government of Nashville	-	-	-	-	540,781.00	540,781.00	1,850.00	(538,931.00)
Workforce Essentials	783,289.00	730,601.00	131,077.64	(599,523.36)	-	-	-	-
Other CSAs, Local Agencies, Donations	73,173.00	58,173.00	-	(58,173.00)	142,260.00	68,173.00	-	(68,173.00)
Interest revenue	-	-	5,656.21	5,656.21	-	-	16,188.03	16,188.03
Total revenues	<u>7,673,241.00</u>	<u>8,192,459.00</u>	<u>6,939,823.30</u>	<u>(1,252,635.70)</u>	<u>8,302,244.00</u>	<u>8,392,844.00</u>	<u>6,114,783.88</u>	<u>(2,278,060.12)</u>
Total sources of financial resources	<u>7,906,555.61</u>	<u>8,425,773.61</u>	<u>7,173,137.91</u>	<u>(1,252,635.70)</u>	<u>8,530,579.26</u>	<u>8,621,179.26</u>	<u>6,343,119.14</u>	<u>(2,278,060.12)</u>
<b>Expenditures</b>								
Administration	462,705.00	561,705.00	532,407.75	(29,297.25)	455,872.00	460,899.00	383,785.09	(77,113.91)
Child and Family Case Management	3,278,758.00	3,669,415.00	3,596,420.09	(72,994.91)	4,514,490.00	4,562,680.00	3,547,554.47	(1,015,125.53)
Child and Family Services	2,462,861.00	2,492,422.00	2,053,875.07	(438,546.93)	2,008,909.00	2,024,692.00	1,523,828.69	(500,863.31)
TennCare Transportation	363,543.00	363,543.00	286,649.02	(76,893.98)	419,019.00	419,019.00	329,202.69	(89,816.31)
AmeriCorp Promise Fellows	88,163.00	88,163.00	52,957.04	(35,205.96)	-	88,163.00	30,383.59	(57,779.41)
Senior Community Services	310,000.00	310,000.00	293,200.00	(16,800.00)	310,000.00	310,000.00	295,050.00	(14,950.00)
Youth at Work	-	-	-	-	540,781.00	540,781.00	-	(540,781.00)
Community Development	136,913.00	136,913.00	-	(136,913.00)	136,913.00	136,913.00	-	(136,913.00)
Workforce Essentials	715,601.00	715,601.00	131,077.64	(584,523.36)	-	-	-	-
Total expenditures	<u>7,818,544.00</u>	<u>8,337,762.00</u>	<u>6,946,586.61</u>	<u>(1,391,175.39)</u>	<u>8,385,984.00</u>	<u>8,543,147.00</u>	<u>6,109,804.53</u>	<u>(2,433,342.47)</u>
<b>Fund Balance - June 30</b>	<u>\$ 88,011.61</u>	<u>\$ 88,011.61</u>	<u>\$ 226,551.30</u>	<u>\$ 138,539.69</u>	<u>\$ 144,595.26</u>	<u>\$ 78,032.26</u>	<u>\$ 233,314.61</u>	<u>\$ 155,282.35</u>

Note: The budgeted and actual expenditures reported as Children and Family Services, Family Support Services, Flexible Funding, and Emergency Residential for the year ended June 30, 2002, were reclassified and reported as Child and Family Case Management and Child and Family Services for the year ended June 30, 2003.

## **APPENDIX**

### **MID-CUMBERLAND COMMUNITY SERVICES AGENCY**

Beverly Bass, Executive Director

#### **BOARD OF DIRECTORS**

##### Executive Committee Members

Mary Todd Linville, Chair  
David Asbury, Vice-Chair  
Bettie Woodard, Treasurer  
Barbara K. Swader, Secretary  
Luther Bratton, At-Large  
Mary Elaine Horn, At-Large

##### Other Members of the Board of Directors

Beth Kasch  
Bettye McKinnon  
Julie C. Mills  
Janet Tabor